Message

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Sent: 3/29/2019 11:41:14 AM
To: Rick Arvielo [Rick.Arvielo@Nafinc.com]; Kelly Allison [Kelly.Allison@Nafinc.com]; Patty Arvielo [Patty.Arvielo@Nafinc.com]; Christy Bu [Christy.Bunce@Nafinc.com]; Jon Reed (EVP Retail) [Jon.Reed@Nafinc.com]
Subject: RE: Southeast PE's

Good Afternoon Rick, thank you for reaching out to us to clarify the overall objective. We too would like the opportunity to review the facts in the chronology of our discussions over the last 2 months so we are all synchronized to move forward in the best interest of all parties.

- February 12: One on one meeting with Christy, Jon & Jan. We were notified of mis-allocation of 30 million to CM1 and new policy on PE threshold's and abolishment of Marketing budgets.
- March 5: SVP/EVP meeting. After joint meeting, Kelly and I met with Jon individually and proposed a reduction in LO comp to 130 and accountability to a weighted PE average of 75bps on a monthly basis to include a claw back if needed. We believed this would be direct accountability to the NAF goal for CM profitability and a win-win for everyone.
- March 19: After 2 weeks of calls and emails it became clear that reporting and visibility to WA PE would be difficult or impossible. Therefore, we sent an email with a revised proposal of comp back to 140 and PE thresholds of 100/87.5 and we would absorb all SE marketing expenses.
- March 20: call with Jason, Christy, Jon, Jan, and Kristin to discuss go forward plan. Christy, Jason, and Kristin confirmed on this call that they much preferred PE thresholds versus the WA PE method
- March 26: Jason sent email that our PE's would be monitored and comp may need to be further adjusted unless WA PE of 50-55bps was achieved to reach CM target goal.

Our reaction to Jason's email was simply some frustration that the targets for CM and WA PE have moved 3 times in 45 days. We have managed P&L's and PE's successfully for many years and Jason's email seemed to indicate we might do otherwise. In 2018 we managed to a WA PE of 82bps with a PE tolerance of 200 bps so that should provide evidence that we don't max out PE's on all loans. We have never given PE authority to Branch managers and do not plan to in the future.

In summary, as we have stated previously, we are firmly committed to being a part of the solution to ensure NAF is profitable. We only "changed" or proposed a different plan because the original agreed upon solution was impossible to implement as verified by the EVP team. It now appears we have a solid go forward plan and we are looking forward to getting back to work on growing the Southeast. We look forward to seeing you and Patty when you visit Atlanta.

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From: Rick Arvielo <Rick.Arvielo@Nafinc.com>
Sent: Friday, March 29, 2019 10:09 AM
To: Kelly Allison <Kelly.Allison@Nafinc.com>; Gina Spearman <Gina.Spearman@Nafinc.com>; Patty Arvielo <Patty.Arvielo@Nafinc.com>; Christy Bunce <Christy.Bunce@Nafinc.com>; Jon Reed (EVP Retail) <Jon.Reed@Nafinc.com>
Subject: FW: Southeast PE's

Good Morning Kelly and Gina. I heard you had a negative reaction to Jason's email below so I wanted to come over the top and opine.

Our only objective is to achieve profitability while disturbing as little as possible in our regions. We are excited about the buy in and participation from the SVP's so want to arm everyone with as much information as possible to achieve our goal.

You had sent an email first, reducing comp and PE's and then changing that. Obviously, NAF needs to make money so we conducted a deep dive to see if we could possibly accommodate you position and were excited when we determined we could. But...only if other things didn't change which Jason tried to lay out below.

Currently, the SE is performing far better than any other region as it relates to the percentage of loans you fund at the lower PE buckets which is why our analysis suggests your comp and PE plan will work. What we have noticed in our other regions is the SVP's share their PE levels with the BM's and as a result the behavior is the LO's just start bringing in their deals at the higher PE levels. If that were to occur in the South East, it would ultimately translate in to a loss for NAF. Jason's email was his attempt to share this with you both so you were armed with the information we were.

If these ratios can remain in the same buckets below, along with the other changes we should be fine. We are already seeing great movement is some other areas so are excited that the current market changes that have affected out profitability will be behind us and we can move forward with confidence.

Please let us know if you have any questions. I appreciate your understanding and look forward to seeing you both soon.

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From: Jason Obradovich
Sent: Tuesday, March 26, 2019 4:24 PM
To: Kelly Allison <Kelly.Allison@Nafinc.com>; Gina Spearman <Gina.Spearman@Nafinc.com>
Cc: Rick Arvielo <Rick.Arvielo@Nafinc.com>; Jon Reed (EVP Retail) <Jon.Reed@Nafinc.com>; Jan Preslo <Jan.Preslo@Nafinc.com>; Christy Bunce <Christy.Bunce@Nafinc.com>
Subject: Southeast PE's

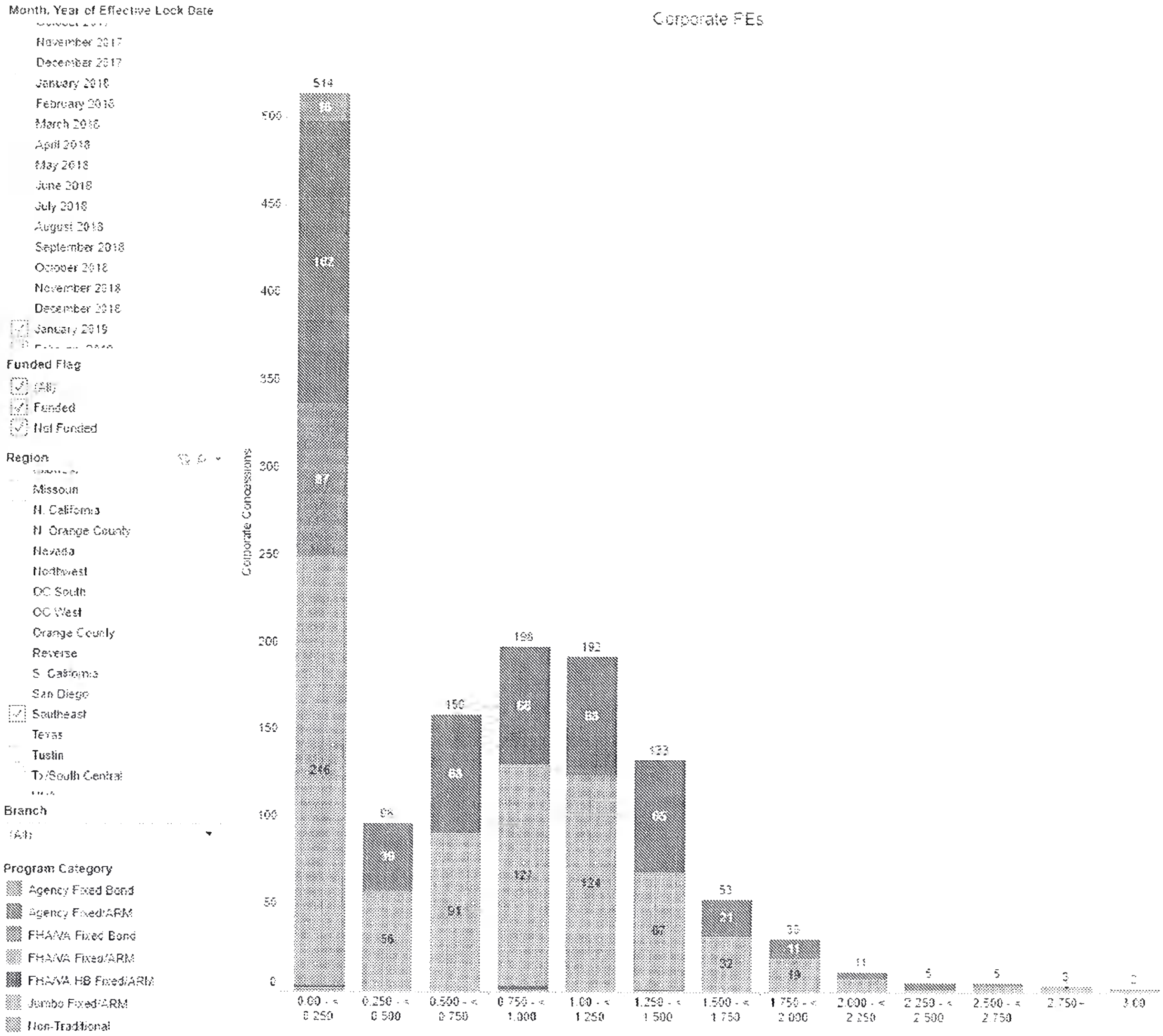
Hi Kelly/Gina, I wanted to follow up with you on the recent change to your PE thresholds of 87.5bps on conforming and 100bps on government, while keeping total comp the same at 140bps. One of the concerns we have is based upon the behavior we have witnessed in other markets. We set a PE threshold in that market and then not too long after, most loans come in at the max PE, which ultimately harms profitability. Often the regional manager gives the branch manager their authority and then the branch manager ends up giving that authority to the LO. Suddenly LO's are maxing out PE's on every loan. I'm not suggesting that will happen in your market but the whole premise for keeping comp at 140bps was based upon the notion that the distribution of PE's would not change.

I have pulled your distribution of PE's out of Tableau and presented them below. As you can see by and large most loans are locked with little to no PE. We need that behavior to remain. When we ran the pro-forma on the Southeast, agreeing to keep comp at 140bps, it was under the expectation that this would occur. The premise is that if your max PE on conforming at Tier I is 87.5bps then the WA at Tier I is likely around 50-55bps. If that weighted average PE at Tier I starts to climb then we will have to adjust the thresholds or figure out other ways to balance out the loss. We anticipate keeping the distribution like what is below and capping PE's at Tier I to 87.5bps and 100bps basically pays for the difference in comp between 130 and 140bps.

Please let me know if you have any questions or if this doesn't make sense. I want to be as clear and transparent as possible on the expectations of not just the PE thresholds but the distribution of those PE's. I can also show you how to pull this data in Tableau if you want to monitor it was well.

Thank you

Jason



Thank you,

Jason Obradovich
Executive Vice President, Capital Markets

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